

**Economic Development,  
Agriculture & Trade Committee**

**SB 5175**

**Brief Description:** Declaring that international companies investing in Washington are eligible for tax incentives.

**Sponsors:** Senators Shin, Schmidt, Kohl-Welles, Rasmussen, Rockefeller, Eide, Kline, Roach, Berkey, Doumit and McAuliffe.

**Brief Summary of Bill**

- Clarifies that international companies investing in Washington meet the definition of "person" for the purposes of excise taxes.

**Hearing Date:** 3/22/05

**Staff:** Tracey Taylor (786-7196).

**Background:**

There are three general types of taxes: property, income, and excise taxes. Property taxes consist of annual payments by owners of real property and personal property. Property taxes are measured by the value of the property determined either by the fair market or a statutory assessment formula. Washington does not impose any form of income tax, which is measured by the annual income of individuals and corporations. All other forms of taxes usually fall under excise taxes. In Washington, most excise taxes are measured by the selling price or some other measurement of sales, such as gross receipts. Washington's excise taxes include retail sales and use tax and the business and occupation (B&O) tax.

Business and Occupation Tax

Washington's B&O tax is the second largest tax source for the state. In Fiscal Year 2003, B&O tax collection totaled \$1.923 billion which represented approximately 17 percent of state revenue sources within the State General Fund. Almost all businesses located or doing business in the state of Washington are subject to the state B&O tax, including corporations, partnerships, sole proprietors and nonprofit organizations.

Washington's B&O tax is calculated on gross income from business activities in the state. There are no deductions from the B&O tax for labor, materials, taxes or other costs of doing business. However, some businesses may qualify for certain exemptions, deductions or credits. An exempted activity is not subject to the B&O tax and is not reported on the Combined Excise Tax

Return (CETR). Exempted activities include raising and selling plantation Christmas trees at wholesale; sales for fund-raising of certain nonprofit organizations; international banking facilities; and growing, raising or producing agricultural products. Unlike exemptions, deductions must first be reported on a business' CETR as part of the business' gross income, then taken as a deduction. Allowable deductions include bad debts; freight and delivery costs incurred by a Washington manufacturer for out-of-state shipments; and sales made in Washington by an out-of-state seller without activities in Washington that establish, maintain, or facilitate a market for its products or services. Credits are amounts that have been paid to the Department of Revenue which are either not due or are granted by the Legislature for a specific purpose. Credits are subtracted from the B&O tax due on the CETR and include the multiple activities tax credit; the high technology B&O tax credit and the small business B&O tax credit.

Business and occupation tax rates and classifications vary according to the type of business activity. The major B&O tax classifications are retailing, wholesaling, manufacturing and service and other activities.

For the purposes of the B&O tax, "person" means "any individual, receiver, administrator, executor, assignee, trustee in bankruptcy, trust, estate, firm, copartnership, joint venture, club company, joint stock company, business trust, municipal corporation, political subdivision of the state of Washington, corporation, limited liability company, association, society, or any group of individuals acting as a unit, whether mutual, cooperative, fraternal, nonprofit, or otherwise and the United States or any instrumentality thereof.

**Summary of Bill:**

A new section is added to the Department of Community, Trade and Economic Development's statutory chapter specifying that international companies investing in Washington meet the statutory definition of "person" for the purposes of B&O taxes and any related tax incentives.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.